

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 2111 – HB 2275

March 21, 2018

SUMMARY OF ORIGINAL BILL: Establishes that an art gallery receiving 80 percent of its revenue from the sale of artwork may serve wine to patrons of such art gallery without charge.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (015329): Adds language to the original bill to authorize a museum in Hamilton County to sell alcoholic beverages for on-premises consumption.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

**Increase State Revenue - \$300/One-Time/ABC Fund
\$2,000/Recurring/ABC Fund
\$8,500/Recurring/General Fund**

Increase Local Revenue - \$6,300/Recurring/Permissive

Assumptions for the bill as amended:

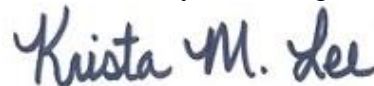
- The provision of this legislation authorizing on-premises consumption of alcoholic beverages applies to one museum in Hamilton County.
- There is an initial application fee of \$300 and a \$2,000 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$300 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the local option sales tax rate in Hamilton County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.

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- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY18-19.
- Based on the interquartile average of 2017 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the size of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$60,000 ($\$120,000 \times 50\%$) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,548 [$(\$60,000 \times 7.0\%) - (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$].
- The recurring increase in local revenue is estimated to be \$6,302 [$\$300 + (\$60,000 \times 2.25\%) + (\$60,000 \times 7.0\% \times 3.617\%) + (\$60,000 \times 15.0\% \times 50.0\%)$].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.
- Pursuant to Tenn. Code Ann. § 57-4-105, an art gallery may currently serve wine to its patrons free of charge if such gallery receives 90 percent of its revenue from the sale of artwork.
- This legislation will decrease the threshold required for art galleries to serve wine to its patrons free of charge.
- Based on information provided by the Tennessee Alcoholic Beverage Commission (ABC), art galleries are not currently required to obtain a license from the ABC in order to serve wine to patrons if they meet other statutory requirements. Further, pursuant to Tenn. Code Ann. § 57-4-105, art galleries are not required to pay any fees or taxes related to the privilege of serving wine.
- Decreasing the threshold required for art galleries to serve wine to its patrons free of charge will not result in a significant impact on the number of licenses issued by ABC or state and local tax revenue

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/jdb